

ORIGINAL

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**MEMORANDUM
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Arizona Corporation Commission

DOCKETED

AUG 11 2010

TO: THE COMMISSION

FROM: Utilities Division

AZ CORP COMMISSION
DOCKET CONTROL

DATE: August 11, 2010

DOCKETED BY	
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RE: ARIZONA PUBLIC SERVICE COMPANY - APPLICATION FOR APPROVAL OF ITS 2010 ENERGY EFFICIENCY IMPLEMENTATION PLAN-RESIDENTIAL REPAYMENT FINANCING PROGRAM (DOCKET NO. E-01345A-08-0172)

BACKGROUND

On February 26, 2010, Arizona Public Service Company ("APS" or "Company") filed an application with the Arizona Corporation Commission ("Commission") in compliance with Decision No. 71444. Decision No. 71444, dated December 23, 2009, ordered APS to "...file a residential repayment financing program, as a supplement to the 2010 [Energy Efficiency Implementation Plan]...by February 26, 2010, for Commission consideration." On January 26, 2010, in Decision No. 71460, the Commission granted APS approval of its Non-Residential Customer Repayment Financing option.

PROGRAM DESIGN PARAMETERS

APS states that offering a residential financing program could increase customer participation in its energy efficiency programs. In its application, APS states that because there are various ways to implement an energy efficiency program, many different program design parameters must be considered when structuring a successful program. APS discusses the following design parameters it considered in developing its proposed Residential Energy Efficiency Financing ("REEF") Program.

1. Sources of Capital

In its application, APS describes three major sources of capital that have typically been used for other utility energy efficiency programs.

Public Funding-This includes funding from state treasury funds and federal grants as an initial source of capital. This source of capital is currently being used in similar energy efficiency financing programs such as the Pennsylvania Keystone Home Energy Loan Program ("Pennsylvania Keystone HELP").¹ APS states that given the economic climate in Arizona, it is unlikely that these funds would be available to fund APS energy efficiency programs. In

¹ The Pennsylvania Keystone Home Energy Loan Program is funded by the Pennsylvania Department of Environmental Protection, the Pennsylvania Treasury Department, and the Pennsylvania Housing Finance Agency.

addition, APS states that federal funds, specifically from the American Recovery and Reinvestment Act of 2009 ("ARRA"), are generally being used by local municipalities through Energy Efficiency and Conservation Block Grants or State Energy Program grants and are not directly available for utilities.

Utility Funding-This source of capital would be provided either in the form of demand-side management ("DSM") program funds or utility shareholder capital. APS states that although it may be necessary to pursue this form of funding in the future, there are numerous risks and concerns with this source of funding. For example, APS states that because lending/financing is outside of its core business expertise, customers and shareholders are exposed to additional business risks. In addition, APS states that there is risk of future regulations in consumer lending laws that would subject the Company to additional regulations. Further, APS states that because lending/financing would require expertise in lending laws and regulations that it does not currently possess, this would lead to increased costs to provide this source of funding.

Private Third Party Funding-This source of capital includes bank loans, consumer credit, and home equity lines of credit. According to APS, banks are unwilling to offer loans for non-traditional projects such as energy efficiency retrofits. However, APS states that this source of capital in conjunction with utility support such as an interest rate buy down or a loan loss reserve fund can help create a financing program that can be implemented in a cost-effective manner.

2. Interest Rates

In its application, APS states that it identified the following mechanisms to achieve a competitive range of interest rates similar to those offered in other energy efficiency financing programs.

Interest Rate Buy Down-According to APS, this mechanism allows customer rebates to be used to reduce the principal loan amount or to buy down the interest rate. However, APS states that using only customer rebate funds to buy down the interest rate would not provide adequate funding to achieve intended interest rate levels, resulting in additional DSM funds being needed to buy down the interest rate which would impact the cost of the program.

Guaranty Reserve Account-APS states that having a default reserve account leverages DSM dollars to create a fund used to cover the cost of loan defaults. This will help reduce the risk to private lenders and help drive down interest rates without significantly increasing program costs.

3. Loan Terms, Loan Types, and Amounts

Loan term refers to the length of time of the loan. APS states that although a longer loan term helps achieve a close to zero impact cash flow for the customer, it may be more difficult to

finance and may increase the risk of loan defaults. Therefore, reaching a balance that is attractive to customers and acceptable to lenders but also minimizes program default costs is an important aspect in a loan program.

According to APS, offering a broad range of loan amounts and terms, including secured and unsecured loans, will allow the program to meet the financing needs of customers. To encourage a variety of energy efficiency projects, APS states that the range of loan amounts should start as low as \$1,000 to a maximum of \$20,000.

4. Risk Management

In its application, APS states that when using a third party lender for financing, in order to limit the number of loan defaults, lending guidelines will generally be a combination of loan criteria used by the utility and the standard underwriting requirements of the lender. Utility criteria will usually consist of the length of time a customer has been a customer of the utility and the customer's payment history with the utility. Lender criteria will generally include bankruptcy history, credit scores, and employment history/stability.

5. Integration of Financing into the Overall Energy Efficiency Program

According to APS, all financing options that are pursued should be integrated into the DSM program marketing and delivery. In addition, APS states that the participating contractors should be fully trained to explain and offer financing options to customers. Further, participating contractors should be able to show customers the estimated savings and the payback likely to be seen by the customer.

6. Ease of Use

APS states that programs that allow a customer to be pre-approved over the phone are the most streamlined and easy programs to administer and use. In addition, financing options should be easy for participating contractors to explain to customers and easy for customers to understand.

7. Repayment Billing

In its application, APS states that there are many options and differing levels of integration into the utility bill of monthly repayment billing. In addition, APS states that each option can significantly affect the costs and implementation of the financing program. APS describes the four following options for repayment billing.

Option I: Direct Third Party Billing

With this option, a third party lender would administer the loan. The lender would be the party to bill the participating customers for monthly payments. This bill would be sent to

customers in separate statement from the customer's APS bill. In addition, APS states that the implementation timeframe is relatively short. According to APS, this option has low initial program costs and ongoing bill administration costs because these costs are borne by the lender and do not impact the program costs. This option also includes an optional energy savings report insert provided by APS that would be included in the customer's financing bill or in a separate mailing. The energy savings report would allow customers to compare the energy savings to the cost of the energy efficiency measures installed at a relatively low program cost. This option would require a one-time modification to the lender's billing system. APS estimates that there would be ongoing mailing costs per quarter for the energy reports.

Option II: Parallel Billing

With this option, the lender would send monthly statements to APS. APS would then insert the statements into the participating customers' monthly APS bill. This approach has minimal initial program costs because this process does not require any significant billing system modifications. In addition, the implementation time frame is relatively short. APS states that based on the number of loans, there would be ongoing costs to implement this option due to the time it will take to manually identify and match each participating customer's APS bill and lender bill. APS states that manual handling of the bills could result in mismatched APS and lender bills for a customer and lender statements that are inadvertently missing from the customer's monthly bill.

Option III: Partially Integrated "On-Bill"

According to APS, this approach includes an informational message on the customer's APS bill that details the customer's monthly charges from the lender. With this option, the amount owed to the lender is automatically withdrawn and paid to the lender. A separate bill will still be required by the lender in order to comply with lending regulation requirements. This option allows for more integrated billing statements where energy savings and monthly charges appear on one statement. However, this option has a longer implementation time frame and a higher initial program cost due to the modifications required to both APS' and the lender's billing systems.

Option IV: Fully Integrated "On-Bill"

APS states that this option would allow customers' financing charges to be printed directly on the utility bill with both the APS bill and the lender charges paid directly to APS. This approach provides the greatest level of integration. However, this option also has significant initial program costs and the longest implementation time frame of over one year. APS states that there would be significant billing and payment system modifications for both the lender and APS.

APS' PROPOSED REEF PROGRAM

APS' application includes its proposed REEF Program based on the program design parameters described above. APS states that it could begin to implement its proposed REEF program in as little as 90 days after Commission approval. In addition, APS notes that the design parameters, time frames, and estimated program costs are preliminary estimates and may change in final negotiations with the participating lender.

1. Sources of Capital

APS states that it believes that the most feasible, timely, and cost-effective option for a source of capital is through private third-party funding. APS is proposing that National Bank of Arizona ("NBAZ") provide the third-party source of capital. Staff notes that NBAZ is the lender for APS' Non-Residential Customer Repayment Financing Program approved by the Commission in Decision No. 71460. Through this partnership with NBAZ, APS states that financing for eligible energy efficiency improvements will be available to APS' customers as part of its Home Performance Program. Capital provided by NBAZ would be available up to an aggregate limit of \$1.5 million. APS has estimated that the average amount that would be financed is \$5,000 which would allow the Program to finance approximately 300 consumer loans at any time. APS states that if the limit were reached, APS and NBAZ would negotiate allowing additional capital or APS could seek an additional lending partner.

2. Interest Rates

According to APS, its proposed REEF Program would help buy down interest rates using customer rebate dollars. In order to reduce interest, APS states that any utility rebate that the customer would otherwise receive from installing energy efficiency measures, would be applied to the customer's loan to reduce the principal amount of the loan and buy down the interest rate. APS would invest in an interest bearing Guaranty Reserve Account in order to allow customers to obtain below market interest rates ranging from 6.5 percent to 7.99 percent. The Guaranty Reserve Account would be used as a collateral guaranty for the loans issued under this program. The funds would be used to create a reserve to offset any losses incurred by NBAZ. NBAZ would be able to collect a percentage of the unpaid balance of a loan in default through the Guaranty Reserve Account. Staff believes that the amount that can be collected by NBAZ through the Guaranty Reserve Account should not exceed fifty percent (50%) of the amount of the unpaid loan amount in default. This will help ensure that NBAZ takes all appropriate actions necessary to recover the loan amount directly from the customer before withdrawing funds from the Guaranty Reserve Account.

Based on the \$1.5 million in capital that would be provided by NBAZ, APS states that it would deposit \$450,000 (30 percent) to establish the Guaranty Reserve Account. APS states that the funds used to create the Guaranty Reserve Account would come from funds generated from the revenues of day-to-day operations at APS that would otherwise be allocated to other Company investments. Staff believes that the Guaranty Reserve Account established by APS

should not exceed \$250,000. This will ensure that any risk to ratepayers will be minimized. APS is proposing the cost (discussed below) of the REEF program be recovered through its Demand-Side Management Adjustment Charge ("DSMAC").

3. Loan Terms, Loan Types, and Loan Amounts

The proposed REEF program would offer secured loans ranging from \$5,000 to \$20,000 with payment terms from 60 to 120 months. The proposed REEF program would also offer unsecured loans ranging from \$1,000 to \$20,000 with payment terms from 12 months to 60 months. In its application, APS states that it estimated that the average amount financed for a loan would be approximately \$5,000 based on the \$1.5 million in capital from NBAZ. Staff believes that the maximum loan amount offered (and the maximum outstanding pre-interest loan balance) should be \$10,000 rather than \$20,000 per home. In addition, Staff believes that only secured loans be offered to customers. A secured loan would provide customers the opportunity of monthly repayment amounts that would be lower over a longer time period.

4. Risk Management

In its application, APS states that it and NBAZ have developed the following minimum criteria that a customer must meet in order to qualify for a loan:

- Meet the eligibility requirements of APS' REEF program
- Be an APS customer for a minimum of six months
- Be a customer in good standing with APS
- Not have filed for bankruptcy
- Meet the following underwriting requirements of NBAZ:
 - Employment stability (minimum of two years)
 - Credit history including Fair Isaac Corporation scores (>700 for unsecured loans and >650 for secured loans)
 - Risk of bankruptcy scores (<450 for unsecured loans and <600 for secured loans)
 - Meet maximum debt-to-income thresholds
 - Meet maximum loan-to-value thresholds for secured loans

APS states that when a loan becomes 60 days past due, NBAZ will then provide APS with written notice that it intends to offset the outstanding balance of a loan against the Guaranty Reserve Account once the loan becomes 90 days past due. At 90 days past due, NBAZ may then charge the Guaranty Reserve Account the outstanding balance of the loan.

5. Integration of Financing into the Overall Energy Efficiency Program

APS states that it intends for the REEF program to be fully integrated into the Home Performance Program. Participating contractors would be trained on providing customers with information regarding the REEF program. Customers would be able to apply by telephone during the contractor visit.

6. Ease of Use

APS states that participating contractors would receive detailed training on the REEF program from the lender. This will allow the contractors to offer the benefits of the REEF program at the same time they perform an energy audit in conjunction with the Home Performance Program. Customers would be able to be pre-approved over the phone at the time of the energy audit and would have access to several NBAZ branches for finalizing the loan.

7. Repayment Billing

APS' proposed REEF program includes the direct third-party billing option. APS states that this option offers the shortest implementation time frame and is the most cost-effective option. In addition, this option includes the optional quarterly energy savings report which will illustrate to customers their energy savings compared to the cost of financing.

PROGRAM COSTS

In its application, APS is proposing to recover the cost of its proposed REEF program through its DSMAC. In Decision No. 71460, the Commission granted APS a DSMAC of \$0.001646 per kWh. Based on the program costs in the tables below for each option, APS has estimated the incremental impact each of the options would have on its DSMAC. The tables below show the estimated program costs of each of the four options for repayment billing previously described:

Option I: Direct Third Party Billing (APS' proposed option)

Category	Amount
Marketing	\$50,000
Training	\$10,000
Program Implementation/Administration	\$65,000
IT modification to NBAZ system*	\$30,000
Customer Incentive Cost	\$50,000
Total	\$205,000
DSMAC Incremental Increase (per kWh)	\$0.000007

*Represents a one-time cost

Option II: Parallel Billing

Category	Amount
Marketing	\$50,000
Training	\$10,000
Program Implementation/Administration	\$114,000
IT modification to APS system*	\$25,000
Customer Incentive Cost	\$50,000
Total	\$249,000
DSMAC Incremental Increase (per kWh)	\$0.000009

*Represents a one-time cost

Option III: Partially Integrated "On-Bill"

Category	Amount
Marketing	\$50,000
Training	\$10,000
Program Implementation/Administration	\$119,000
IT modification to APS and NBAZ systems*	\$150,000
Customer Incentive Cost	\$50,000
Total	\$379,000
DSMAC Incremental Increase (per kWh)	\$0.000013

*Represents a one-time cost

Option IV: Fully Integrated "On-Bill"

Category	Amount
Marketing	\$50,000
Training	\$10,000
Program Implementation/Administration	\$174,000
IT modification to APS and NBAZ system*	\$800,000
Customer Incentive Cost	\$50,000
Total	\$1,084,000
DSMAC Incremental Increase (per kWh)	\$0.000038

*Represents a one-time cost

RECOMMENDATIONS

Based on its analysis, Staff believes that APS' proposed financing program would allow participation from customers who otherwise would be unable to participate in residential energy efficiency measures. Therefore, Staff recommends approval of the program with the following modifications:

- APS offer only secured loans to customers;

THE COMMISSION

August 10, 2010

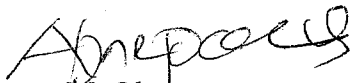
Page 9

- The maximum loan amount offered (and the maximum pre-interest outstanding loan balance allowed) be reduced to \$10,000 per home;
- The maximum amount of the Guaranty Reserve Account funded with ratepayer funds not exceed \$250,000; and
- The maximum percentage that can be recovered by NBAZ from the Guaranty Reserve Account not exceed fifty percent of the outstanding loan.

In addition, Staff recommends that APS file with the Commission a copy of the final agreement reached with NBAZ within 30 days of executing the agreement.

Staff further recommends that APS report on the REEF program in its DSM semi-annual report filed with the Commission, or in any succeeding form of report ordered by the Commission. The information and data reported should include the number and size of the loans, the number and size of the loans in default, the total amount found to be uncollectible, and any other information necessary for the Commission to understand the progress and status of the program, including any ongoing problems and their proposed solutions.

Staff further recommends that any default or group of defaults that would significantly affect the functioning of the REEF program be reported to the Commission within 30 days of APS being notified, or otherwise becoming aware, of the affecting default or defaults. Staff further recommends that APS work to modify the loan requirements if it becomes necessary to address unanticipated problems. Any modifications should require Commission approval.

for 
Steven M. Olea
Director
Utilities Division

SMO:CLA:lhmm\MAS

ORIGINATOR: Candrea Allen

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 KRISTIN K. MAYES
 Chairman

3 GARY PIERCE
 Commissioner

4 PAUL NEWMAN
 Commissioner

5 SANDRA D. KENNEDY
 Commissioner

6 BOB STUMP
 Commissioner

7

8

9 IN THE MATTER OF THE APPLICATION)
10 OF ARIZONA PUBLIC SERVICE)
11 COMPANY FOR APPROVAL OF ITS 2010)
12 ENERGY EFFICIENCY)
13 IMPLEMENTATION PLAN-RESIDENTIAL)
14 REPAYMENT FINANCING PROGRAM)
15 _____

DOCKET NO. E-01345A-08-0172

DECISION NO. _____

ORDER

13 Open Meeting
14 August 24 and 25, 2010
15 Phoenix, Arizona

16 BY THE COMMISSION:

17 FINDINGS OF FACT

18 1. Arizona Public Service Company ("APS" or "Company") is certificated to provide
19 electric service as a public service corporation in the State of Arizona.

20 BACKGROUND

21 2. On February 26, 2010, APS filed an application with the Arizona Corporation
22 Commission ("Commission") in compliance with Decision No. 71444. Decision No. 71444, dated
23 December 23, 2009, ordered APS to "...file a residential repayment financing program, as a
24 supplement to the 2010 [Energy Efficiency Implementation Plan]...by February 26, 2010, for
25 Commission consideration." On January 26, 2010, in Decision No. 71460, the Commission
26 granted APS approval of its Non-Residential Customer Repayment Financing option.

27 PROGRAM DESIGN PARAMETERS

28 3. APS states that offering a residential financing program could increase customer
 participation in its energy efficiency programs. In its application, APS states that because there are

1 various ways to implement an energy efficiency program, many different program design
2 parameters must be considered when structuring a successful program. APS discusses the
3 following design parameters it considered in developing its proposed Residential Energy
4 Efficiency Financing ("REEF") Program.

5 **Sources of Capital**

6 4. In its application, APS describes three major sources of capital that have typically
7 been used for other utility energy efficiency programs.

8 *Public Funding*-This includes funding from state treasury funds and federal grants
9 as an initial source of capital. This source of capital is currently being used in similar
10 energy efficiency financing programs such as the Pennsylvania Keystone Home Energy
11 Loan Program ("Pennsylvania Keystone HELP").¹ APS states that given the economic
12 climate in Arizona, it is unlikely that these funds would be available to fund APS energy
13 efficiency programs. In addition, APS states that federal funds, specifically from the
14 American Recovery and Reinvestment Act of 2009 ("ARRA"), are generally being used by
15 local municipalities through Energy Efficiency and Conservation Block Grants or State
16 Energy Program grants and are not directly available for utilities.

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18 demand-side management ("DSM") program funds or utility shareholder capital. APS
19 states that although it may be necessary to pursue this form of funding in the future, there
20 are numerous risks and concerns with this source of funding. For example, APS states that
21 because lending/financing is outside of its core business expertise, customers and
22 shareholders are exposed to additional business risks. In addition, APS states that there is
23 risk of future regulations in consumer lending laws that would subject the Company to
24 additional regulations. Further, APS states that because lending/financing would require
25 expertise in lending laws and regulations that it does not currently possess, this would lead
26 to increased costs to provide this source of funding.

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28 ¹ The Pennsylvania Keystone Home Energy Loan Program is funded by the Pennsylvania Department of
Environmental Protection, the Pennsylvania Treasury Department, and the Pennsylvania Housing Finance Agency.

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3 loans for non-traditional projects such as energy efficiency retrofits. However, APS states
4 that this source of capital in conjunction with utility support such as an interest rate buy
5 down or a loan loss reserve fund can help create a financing program that can be
6 implemented in a cost-effective manner.

7 **Interest Rates**

8 5. In its application, APS states that it identified the following mechanisms to achieve
9 a competitive range of interest rates similar to those offered in other energy efficiency financing
10 programs.

11 **Interest Rate Buy Down**-According to APS, this mechanism allows customer
12 rebates to be used to reduce the principal loan amount or to buy down the interest rate.
13 However, APS states that using only customer rebate funds to buy down the interest rate
14 would not provide adequate funding to achieve intended interest rate levels, resulting in
15 additional DSM funds being needed to buy down the interest rate which would impact the
16 cost of the program.

17 **Guaranty Reserve Account**-APS states that having a default reserve account
18 leverages DSM dollars to create a fund used to cover the cost of loan defaults. This will
19 help reduce the risk to private lenders and help drive down interest rates without
20 significantly increasing program costs.

21 **Loan Terms, Loan Types, and Amounts**

22 6. Loan term refers to the length of time of the loan. APS states that although a longer
23 loan term helps achieve a close to zero impact cash flow for the customer, it may be more difficult
24 to finance and may increase the risk of loan defaults. Therefore, reaching a balance that is
25 attractive to customers and acceptable to lenders but also minimizes program default costs is an
26 important aspect in a loan program.

27 7. According to APS, offering a broad range of loan amounts and terms, including
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3 **Risk Management**

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6 loan criteria used by the utility and the standard underwriting requirements of the lender. Utility
7 criteria will usually consist of the length of time a customer has been a customer of the utility and
8 the customer's payment history with the utility. Lender criteria will generally include bankruptcy
9 history, credit scores, and employment history/stability.

10 **Integration of Financing into the Overall Energy Efficiency Program**

11 9. According to APS, all financing options that are pursued should be integrated into
12 the DSM program marketing and delivery. In addition, APS states that the participating
13 contractors should be fully trained to explain and offer financing options to customers. Further,
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16 **Ease of Use**

17 10. APS states that programs that allow a customer to be pre-approved over the phone
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24 option can significantly affect the costs and implementation of the financing program. APS
25 describes the four following options for repayment billing.

26 ***Option I: Direct Third Party Billing***

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1 sent to customers in separate statement from the customer's APS bill. In addition, APS
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4 borne by the lender and do not impact the program costs. This option also includes an
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9 modification to the lender's billing system. APS estimates that there would be ongoing
10 mailing costs per quarter for the energy reports.

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6 **Risk Management**

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- 9 • Meet the eligibility requirements of APS' REEF program
- 10 • Be an APS customer for a minimum of six months
- 11 • Be a customer in good standing with APS
- 12 • Not have filed for bankruptcy
- 13 • Meet the following underwriting requirements of NBAZ:
 - 14 ○ Employment stability (minimum of two years)
 - 15 ○ Credit history including Fair Isaac Corporation scores (>700 for unsecured
 - 16 loans and >650 for secured loans)
 - 17 ○ Risk of bankruptcy scores (<450 for unsecured loans and <600 for secured
 - 18 loans)
 - 19 ○ Meet maximum debt-to-income thresholds
 - 20 ○ Meet maximum loan-to-value thresholds for secured loans

21 18. APS states that when a loan becomes 60 days past due, NBAZ will then provide
22 APS with written notice that it intends to offset the outstanding balance of a loan against the
23 Guaranty Reserve Account once the loan becomes 90 days past due. At 90 days past due, NBAZ
24 may then charge the Guaranty Reserve Account the outstanding balance of the loan.

24 **Integration of Financing into the Overall Energy Efficiency Program**

25 19. APS states that it intends for the REEF program to be fully integrated into the
26 Home Performance Program. Participating contractors would be trained on providing customers
27 with information regarding the REEF program. Customers would be able to apply by telephone
28 during the contractor visit.

Ease of Use

20. APS states that participating contractors would receive detailed training on the REEF program from the lender. This will allow the contractors to offer the benefits of the REEF program at the same time they perform an energy audit in conjunction with the Home Performance Program. Customers would be able to be pre-approved over the phone at the time of the energy audit and would have access to several NBAZ branches for finalizing the loan.

Repayment Billing

21. APS' proposed REEF program includes the direct third-party billing option. APS states that this option offers the shortest implementation time frame and is the most cost-effective option. In addition, this option includes the optional quarterly energy savings report which will illustrate to customers their energy savings compared to the cost of financing.

PROGRAM COSTS

22. In its application, APS is proposing to recover the cost of its proposed REEF program through its DSMAC. In Decision No. 71460, the Commission granted APS a DSMAC of \$0.001646 per kWh. Based on the program costs in the tables below for each option, APS has estimated the incremental impact each of the options would have on its DSMAC. The tables below show the estimated program costs of each of the four options for repayment billing previously described:

Option I: Direct Third Party Billing (APS' proposed option)

Category	Amount
Marketing	\$50,000
Training	\$10,000
Program Implementation	\$65,000
IT modification to NBAZ system*	\$30,000
Customer Incentive Cost	\$50,000
Total	\$205,000
DSMAC Incremental Increase (per kWh)	\$0.000007

*Represents a one-time cost

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Option II: Parallel Billing

Category	Amount
Marketing	\$50,000
Training	\$10,000
Program Implementation	\$114,000
IT modification to APS system*	\$25,000
Customer Incentive Cost	\$50,000
Total	\$249,000
DSMAC Incremental Increase (per kWh)	\$0.000009

*Represents a one-time cost

Option III: Partially Integrated "On-Bill"

Category	Amount
Marketing	\$50,000
Training	\$10,000
Program Implementation	\$119,000
IT modification to APS and NBAZ	\$150,000
Customer Incentive Cost	\$50,000
Total	\$379,000
DSMAC Incremental Increase (per kWh)	\$0.000013

*Represents a one-time cost

Option IV: Fully Integrated "On-Bill"

Category	Amount
Marketing	\$50,000
Training	\$10,000
Program Implementation	\$174,000
IT modification to APS and NBAZ	\$800,000
Customer Incentive Cost	\$50,000
Total	\$1,084,000
DSMAC Incremental Increase (per kWh)	\$0.000038

*Represents a one-time cost

RECOMMENDATIONS

23. Based on its analysis, Staff believes that APS' proposed financing program would allow participation from customers who otherwise would be unable to participate in residential energy efficiency measures. Therefore, Staff has recommended approval of the program with the following modifications:

- APS offer only secured loans to customers;
- The maximum loan amount offered (and the maximum pre-interest outstanding loan balance allowed) be reduced to \$10,000 per home;

- The maximum amount of the Guaranty Reserve Account funded with ratepayer funds not exceed \$250,000; and
- The maximum percentage that can be recovered by NBAZ from the Guaranty Reserve Account not exceed fifty percent of the outstanding loan amount.

24. In addition, Staff has recommended that APS docket with the Commission a copy of the final agreement reached with NBAZ within 30 days of executing the agreement.

25. Staff has further recommended that APS report on the REEF program in its DSM semi-annual report filed with the Commission, or in any succeeding form of report ordered by the Commission. The information and data reported should include the number and size of the loans, the number and size of the loans in default, the total amount found to be uncollectible, and any other information necessary for the Commission to understand the progress and status of the program, including any ongoing problems and their proposed solutions.

26. Staff has further recommended that any default or group of defaults that would significantly affect the functioning of the REEF program be reported to the Commission within 30 days of APS being notified, or otherwise becoming aware, of the affecting default or defaults.

27. Staff has further recommended that APS work to modify the loan requirements if it becomes necessary to address unanticipated problems. APS should file an application with the Commission for approval of any modifications.

CONCLUSIONS OF LAW

1. APS is an Arizona public service corporation within the meaning of Article XV, Section 2, of the Arizona Constitution.

2. The Commission has jurisdiction over APS and over the subject matter of the Application.

3. The Commission, having reviewed the application and Staff's Memorandum dated August 11, 2010, concludes that it is not in the public interest to approve the APS request for approval of its Residential Repayment financing Program as discussed herein.

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ORDER

IT IS THEREFORE ORDERED that Arizona Public Service Company's request for approval of its Residential Repayment Financing Program be and hereby is granted, as discussed herein.

IT IS FURTHER ORDERED that Arizona Public Service Company offer only secured loans to customers.

IT IS FURTHER ORDERED that Arizona Public Service Company reduce the maximum loan amount offered (and the maximum outstanding pre-interest loan balance) to \$10,000 per home.

IT IS FURTHER ORDERED that the Guaranty Reserve Account amount established by Arizona Public Service Company may be funded with up to \$250,000 of ratepayer funds.

IT IS FURTHER ORDERED that the maximum percentage that can be recovered by National Bank of Arizona from the Guaranty Reserve Account not exceed fifty percent of the outstanding loan amount.

IT IS FURTHER ORDERED that Arizona Public Service Company file, with the Commission's Compliance Section, a copy of the final agreement reached with National Bank of Arizona within 30 days of executing the agreement.

IT IS FURTHER ORDERED that Arizona Public Service Company report on the REEF program in its DSM semi-annual report filed with the Commission, or in any succeeding form of report ordered by the Commission. The information and data reported shall include the number and size of the loans, the number and size of the loans in default, the total amount found to be uncollectible, and any other information necessary for the Commission to understand the progress and status of the program, including any ongoing problems and their proposed solutions.

IT IS FURTHER ORDERED that any default or group of defaults that would significantly affect the functioning of the REEF program be reported to the Commission within 30 days of Arizona Public Service Company being notified, or otherwise becoming aware, of the affecting default or defaults.

...

1 IT IS FURTHER ORDERED that Arizona Public Service Company work to modify the
2 loan requirements if it becomes necessary to address unanticipated problems and file an
3 application with the Commission for any modifications.

4 IT IS FURTHER ORDERED that this Order shall become effective immediately.

5
6 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**
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8

9 CHAIRMAN

COMMISSIONER

10
11
12 COMMISSIONER

COMMISSIONER

COMMISSIONER

13
14 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,
15 Executive Director of the Arizona Corporation Commission,
16 have hereunto, set my hand and caused the official seal of
this Commission to be affixed at the Capitol, in the City of
Phoenix, this _____ day of _____, 2010.

17
18 _____
ERNEST G. JOHNSON
19 EXECUTIVE DIRECTOR

20 DISSENT: _____
21

22 DISSENT: _____
23

24 SMO:CLA:lh\MAS
25
26
27
28

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